BRIEF IN SUPPORT OF THE PETITION FOR WRIT OF CERTIORARI.

Opinions of the Court Below.

The Circuit Court of Appeals for the Second Circuit was divided in its views with respect to the nature of the judgment in question and consequently of the right of petitioners to appeal. The majority opinion (Judges Swan and Clark) found that the judgment was not final and appealable (R. pp. 44-52). Judge Frank disagreed in a dissenting opinion (R. pp. 52-70). These opinions are reported in 69 U. S. P. Q. 29.*

Statement of the Case.

The essential facts of the case are stated in the accompanying Petition for Writ of Certiorari and are adopted and made a part of this brief.

Jurisdiction.

The jurisdiction of this Court is pointed out in the accompanying Petition for Writ of Certiorari. In addition to *Reeves v. Beardall*, 316 U. S. 283, there cited, this Court has granted a Petition for a Writ of Certiorari to review a question of the Federal law of procedure in *Zimmern, et al. v. United States*, 298 U. S. 167 and in *Leishman v. Associated Wholesale Electric Co.*, 318 U. S. 203.

Specification of Error to Be Urged.

The Circuit Court of Appeals erred:

In dismissing the appeal taken by Petitioners from the judgment of the District Court by which the patent abuse issue was dismissed on the merits.

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* The opinion of the District Court for the Southern District of New York (Judge Bright) dismissing Petitioners' patent abuse averment on the merits ("Third Defense" in Answer) (R. pp. 27-32) is reported in 64 F. Supp. 516 and 67 U. S. P. Q. 84.

Argument.

1. The Question Presented is an Important One of Federal Law of Procedure.

It is important to the administration of the patent laws for this Court to determine the nature of a judgment dismissing a patent abuse issue on the merits. In view of the irreconcilable views of the majority and minority opinions of the Circuit Court of Appeals, confusion will result, which should be resolved by this Court.

If, as Judge Frank concluded in his dissenting opinion, such a judgment is final, an appeal therefrom must be taken within the statutory period of three months from the entry of the judgment; otherwise, the right to appeal the issue is forever closed. On the other hand, if, as the majority of the Court concluded, the judgment is not final, then the issue is not appealable until the issues of validity and infringement are tried and determined.

But, whether the opinion of the majority or of the minority be deemed the better view, an appeal from such a judgment of a District Court will be required, out of caution, until the question is settled by this Court, because the penalty for failure to appeal may be the loss of that right. Moore, in speaking of such an uncertainty, has stated:

> "a lawyer in order to protect a client from an adverse ruling must often appeal at that stage lest later he find that the order disposed of a 'cause of action' for purposes of appeal, was final, and the time for appeal has now run." (Moore, 3 Federal Practice, 1945 Cum. Supp. 146)

It is also important to have the question presented determined by this Court, because, if a judgment of the type in question is found to be final, a review on appeal of the merits of a claim of patent abuse will determine, in the preliminary stage of patent litigation, whether the patent owner can maintain his action for infringement. If it be

found that he cannot, the cost and labor of trying the difficult questions of patent infringement and validity will be avoided, and a party guilty of misusing his patent cannot take advantage of his own misconduct.

The importance of this phase of the matter was emphasized in the dissenting opinion in this case where Judge Frank stated (R. p. 52):

> "My colleagues, I think, have brushed to one side at least seven recent decisions of the Supreme Court, together with a half-dozen or more of our own, to reach a conclusion which, if it becomes a precedent, will seriously interfere with sound judicial administration of the patent and anti-trust laws. For it frustrates the policy, often recently announced by the Supreme Court, that the owner of a valid patent may not enforce it against infringers if the owner has abused the patent monopoly by using it in a manner violative of the anti-trust laws." (Footnote omitted);

and (R. pp. 67-68): : :

> "That policy * calls, I think, for this conclusion: When the issue of patent-abuse becomes apparent to the court, it should, if practicable, be decided at the outset of the suit, i. e., in advance of the trial of the other issues, and the court's decision on that threshold issue should be appealable at once, because, if the patentee is guilty of abusing the patent, he should not be allowed to compel the defendant to go to the trouble and expense of defending the suit for enforcement of the patent. This is no light matter, for it is well known that the notoriously great cost of such a defense has often induced alleged infringers to accept licenses on onerous terms rather than to engage in litigation, with the result that 'spurious' patents, uncontested, substantially reduce competition. That policy, expressed frequently in re-

* The policy announced by this Court in Mercoid Corp. v. Mid-Continent Invest. Co., 320 U. S. 661.

cent years by the Supreme Court, which would prevent such injury to the public, my colleagues' decision frustrates." (Footnotes omitted)

2. The Majority Opinion of the Circuit Court of Appeals for the Second Circuit is Probably in Conflict With Applicable Decisions of This and Other Courts.

The fundamental issue raised by the dismissal of Petitioners' appeal by the Circuit Court of Appeals is whether or not a patent abuse averment, such as set forth in Petitioners' "Third Defense", presents a separate issue which is distinct from the main claim of patent infringement, so that a judgment dismissing it on the merits is a separate judgment under Rule 54 (b) F. R. C. P. and is, therefore, appealable under the authority of *Reeves v. Beardall,* and other cases cited at page 6 of the Petition.

An issue of patent misuse depends entirely upon the acts and conduct of the patent owner, e. g., the relations between the Respondent here and its two licensees with their customers. On the other hand, the questions of patent validity and infringement have nothing to do with the conduct of the patent owner. Validity requires consideration of the prior art and the like, while infringement depends upon the nature of the business of the alleged infringer and its relation to the purported invention of the patent. Patent abuse does not arise "out of the transaction or occurrence which is the subject matter of the claim" (Rules 54 (b) and 13 (b), F. R. C. P.) based on patent validity and infringement.

Nevertheless, the majority of the Court concluded that the issue of patent misuse is "closely intertwined" with the validity of the patent (R. p. 47) and thereupon held that the issue did not involve a claim distinct from the claim of patent infringement. It likened the patent abuse claims to the defenses of payment, release, statute of limitations, estoppel, accord and satisfaction, and other matters stated

in Rule 8 (c), F. R. C. P. (R. p. 47). It, therefore, dismissed the appeal because it concluded that the judgment dismissing the patent abuse issue was not a separate judgment under Rule 54 (b), F. R. C. P. (R. pp. 51-52).

The patent in suit contains one set of claims directed to the molding powder per se and another set directed to a method involving the *use* of the molding powder—not to a method of making it. (The claims are set forth in an Appendix to this Brief.)

Respondent and its licensees, American Cyanamid Company and Bakelite Corporation, manufacture the molding powder claimed in the product claims of the patent, but they do not use the molding powder and, therefore, do not practice the process of the method claims. They sell the molding powder to the trade for use in making molded articles in accordance with the process of the method claims. Thus, the sale of the molding powder carries with it an implied or constructive license to use, in conjunction with the molding powder so purchased, the process of the method claims. No royalty is paid and the sole consideration for the right to use the process is the purchase of the molding powder from Respondent or its above-named licensees. Furthermore, the grant of licenses under the method claims of the patent is confined to those concerns which purchase the molding powder from Respondent, from American Cyanamid Company, or from Bakelite Corporation. Respondent, therefore, limits the use of the process to those who purchase the molding powder from it or its licensees and, in order to further the sale of the product, offers, as an inducement, a gift of a free license under the method claims.*

* The majority opinion stated that there were two outstanding licensees under the method claims (R. p. 48), referring to American Cyanamid Company and Bakelite Corporation. While nominally these concerns have the right to practice the method, they, in fact, do not, but are in the same business as Respondent, and like Respondent, sell the molding powder. Every purchaser of the molding powder from any of these three concerns has an implied license under the method claims by reason of its purchase of the powder.

This method of doing business, Petitioners say, is an attempt by Respondent to control business in the molding powder of the product claims by the use of the method claims. In other words, instead of being content with the product claims for patent protection of the product, Respondent seeks to enlarge its patent protection on the product by resort to other claims, not directed to that product, but to a method which, in fact, is not used by Respondent or its licensees, American Cyanamid Company and Bakelite Corporation. Petitioners cited, as another example of what it believes to be a misuse of the patent, Respondent's charge in the Complaint of contributory infringement of the method claims by Petitioners, by which charge Respondent is also attempting to use the method claims to control business in the molding powder. See *Carbice Corp. v. American Patents Developments Corp. et al.*, 283 U. S. 27; *Leitch Mfg. Co. v. Barber Co., Inc.*, 302 U. S., 458; *Morton Salt Co. v. G. S. Suppiger*, 314 U. S. 488; *B. B. Chemical Co. v. Ellis*, 314 U. S. 495; *Mercoid Corp. v. Mid-Continent Invest. Co.*, 320 U. S. 661; *Ethyl Gasoline Corp. v. U. S.*, 309 U. S. 436; *Philad Co. v. Lechler Laboratories, Inc.*, 107 F. (2d) 747 (C. C. A. 2).

In answer to the statement in the majority opinion that the issue of patent abuse is like a defense of payment or the like, which is not separately appealable because it arises out of the same transaction as the plaintiffs' claim, the minority opinion pointed out that the case of *Mercoid Corp. v. Mid-Continent Invest. Co.*, 320 U. S. 661, "makes it plain that patent-abuse is not similarly intertwined with the patent owner's claim" of patent infringement (R. pp. 55-56, 59).

The minority opinion also considered the nature of the particular patent abuse issue raised in this case and called attention to the alternative nature of Petitioners' pleading where, by the "Third Defense", it was averred "that, even if the patent is valid and infringed, nevertheless plaintiff is not entitled to enforce it because, in dealings with persons other than defendants, plaintiff has abused the patent

monopoly in violation of the anti-trust laws'' (R. pp. 53-54). The minority opinion also referred to the fact that Respondent's alleged misuse was not apparent on the face of the Complaint, or germane to the issues of patent validity and infringement and that, therefore, the proofs submitted to the District Court could not legitimately constitute any part of Respondent's or Petitioners' proofs on these other issues.

The minority opinion found that the holding of the majority of the Court was in conflict with the explicit holding of this Court in *Mercoid Corp. v. Mid-Continent Invest. Co.*, 316 U. S. 283, and with the implicit holding of this Court in *Sola Electric Co. v. Jefferson Electric Co.*, 317 U. S. 173. This conclusion in the minority opinion supports Petitioners' submission that a Writ of Certiorari should be granted, because the decision of the majority of the Circuit Court of Appeals is probably in conflict with applicable decisions of this Court.

The *Mercoid* case is discussed in the minority opinion at pages 52-53 and 56 of the Record, and it is there shown that a patent abuse counterclaim was deemed by this Court to be a ''permissive'' counterclaim. A judgment on such a counterclaim is appealable when entered (R. pp. 56-59).

The *Sola* case is discussed in the minority opinion at pages 59 to 62 of Record. As there pointed out, plaintiff sued for royalties alleged to be due from defendant under a patent license. Defendant set up in a counterclaim that certain of the patent claims were invalid and that the price-fixing clause of the license was illegal. On plaintiff's motion, the District Court dismissed the counterclaim and defendant appealed. Plaintiff moved to dismiss the appeal on the ground that the judgment was not final and separately appealable. The Circuit Court of Appeals for the Seventh Circuit denied the motion (122 F. (2d) 124), and later affirmed the judgment on the merits (125 F. (2d) 322). Certiorari was granted and this Court reversed the Circuit Court of Appeals on the merits, but not, however, on the ground that the judgment on the counterclaim was not final

and appealable in advance of the trial on the other issues. Hence, as pointed out in the minority opinion, the decision of the majority of the Court in the case at bar is in conflict with the implicit holding of this Court in the *Sola* case (R. pp. 60-62). In addition, it is in conflict with the explicit holding of the Circuit Court of Appeals for the Seventh Circuit in its decision on the motion to dismiss the appeal (*Jefferson Electric Co. v. Sola Electric Co.*, 122 F. (2d) 124).

The fact that Petitioners' patent abuse averment is labeled "Third Defense" rather than "Counterclaim" is without significance. As was stated in the minority opinion, regardless of the label, the "Third Defense" must be construed and treated as a counterclaim under Rules 8 (c), 8 (f), and 54 (c), F. R. C. P.; especially in view of the prayer for relief in Petitioners' Answer and the fact that Respondent in its motion to dismiss the defense and the District Court in its opinion treated the "Third Defense" as a demand for affirmative relief, in saying that it "fails to state a claim upon which relief can be granted" (R. pp. 52, 65-69). In answer to a suggestion in the majority opinion that the jurisdiction and perhaps venue requirements for a "permissive" counterclaim are not present in this case, the minority opinion pointed out (R. p. 62) that the *Mercoid* case holds squarely that a Federal Court has jurisdiction of a counterclaim for patent abuse and that, in the case of a "permissive" counterclaim, the venue requirements need not be satisfied, *General Electric Co. v. Marvel Rare Metals Co.*, 287 U. S. 430; *Lesnik v. Public Industrials Corp.*, 144 F. (2d) 968 (C. C. A. 2).

CONCLUSION.

It is respectfully submitted that Petitioners' appeal to the Circuit Court of Appeals for the Second Circuit should have been heard under the authority of *Reeves v. Beardall* and other cases cited (supra, p. 6), and that the dismissal

of the appeal was an error which should be reviewed and corrected by this Court.

WHEREFORE, Petitioners pray that the Writ be granted.

Respectfully,

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